

**GOVERNMENT OF INDIA
PANCHAYATI RAJ
LOK SABHA**

UNSTARRED QUESTION NO:2868

ANSWERED ON:10.05.2006

INTERNAL AUDIT SYSTEM FOR PANCHAYTI RAJ SYSTEM

Reddy Shri Karunakara G.

Will the Minister of PANCHAYATI RAJ be pleased to state:

- (a) Whether the Government is contemplating introduction of an internal audit system for all tiers of Panchayati Raj System;
- (b) if so, the details thereof; and
- (c) the steps being taken by the Government to provide institutional framework to this system at the State and Union level?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF PANCHAYATI RAJ (SHRI MANISHANKAR AIYAR)

(a)&(b) The need to establish an Internal Audit System at every tier of the Panchayati Raj system has been accepted in the 6th Round Table of State Ministers in Charge of Panchayati Raj held in November, 2004 at Guwahati under the Chairmanship of the Union Minister for Panchayati Raj. A copy of the consensus conclusions reached in this regard is annexed. State Governments have been asked to take further follow-up action.

(c) A national level Technical Committee on Budget and Accounting Standards for Panchayati Raj Institutions has been set up. The Committee which comprises representatives from State Governments, Institute of Cost & Works Accountants (ICWA), Institute of Chartered Accountants of India (ICAI) and Comptroller & Auditor General (CAG) would broadly provide guidance on accounting issues of PRIs and act as a think tank and knowledge management group on accounting issues for local bodies.

SIXTH ROUND TABLE OF MINISTERS IN-CHARGE OF PANCHAYATI RAJ - GUWAHATI, 27-28 NOVEMBER 2004

Audit

(i) Since local bodies are now institutions of local self-government, it is necessary to upgrade the work of the Director of Local Fund Audit(DLFA) and other similar bodies to the level required by Constitutional imperatives and, to this end, for DLFA and other similar bodies to work in concert with the Comptroller and Auditor General of India (C&AG).

(ii) In recognition of PRIs being institutions of local self-government, PRIs themselves should be associated with the preparation of standards and norms and the emphasis should be on fund management and fund tracking, rather than simply on fund flow, to ensure greater accountability.

(iii) In order to ensure that such audit contributes effectively to capping, reducing and eventually eliminating the scope for corruption in Panchayati Raj Institutions (PRIs), it is necessary that audit & accounting standards appropriate to the work of the Panchayats be established and observed. These standards should be elementary, simple and easily comprehensible to the elected representatives, and should focus on:

- # when transactions should be looked into;
- # what should be monitored;
- # how the transactions should be documented; and
- # how they should be disclosed.

(iv) There is need to establish an internal audit system at every tier of the Panchayati Raj system and to regard C&AG audit (or audit by bodies certified or technically guided by C&AG) as complementary external audit.

(v) Audit, to be effective, might include the establishment of a National Accounting Standards Board (NASB) for local government accounts and be complemented by the establishment of audit commissions or similar such regulatory bodies at the State level.

(vi) Besides, arrangements may be made in State Legislatures for the establishment of Public Accounts Committees (PACs) specifically for PRIs or for the accounts of PRIs to be submitted to PR Committees of the State Legislatures. State level committees, as in Andhra Pradesh, for the settlement of audit paras may also be considered.

(vii) It may be useful to complement such institutional arrangements by legislating an appropriate Fiscal Responsibility Act for elected local authorities.

(viii) Outsourcing of accounting by such measures as village panchayats being authorized to employ certified Chartered Accountants against standard contracts might be considered.

(ix) The training of both officials and elected representatives in sound accounting and audit practices is a high priority. To this end, State Governments are invited to make full use of the Regional Training Institutes(RTIs) functioning under the aegis of the C&AG, in particular the RTI at Kolkata which has been declared a centre of excellence; as also of the Institute of Public Auditors of India(IPAI). Substantial additional funding from the Union Government to facilitate training is a high priority.

(x) Those State Governments which have not as yet availed of the arrangements for bringing the C&AG into the exercise of accounting and audit, including the C&AG's Technical Guidance and Supervision (TGS) Scheme for the PRLs, are invited to do so and the attention of all concerned is drawn to the publications of the Indian and Audit Accounts Department, in particular

- a) Auditing Standards for PRLs and Urban Local Bodies
- b) Guidelines for Certification of Audit of Accounts of PRLs
- c) Training module of Audit of Gram Panchayats